

Message Text

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FM SECSTATE WASHDC

TO ALL AMERICAN REPUBLIC DIPLOMATIC POSTS

AMEMBASSY OTTAWA

USCINCSO

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FOLLOWING REPEAT CALI 245 SENT SECSTATE DATED MAY 22.

QUOTE

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DEPT PLS PASS ALL LA CAPS AND OTTAWA

EO 11652: NA

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SUBJ: INTER-AMERICAN DEVELOPMENT BANK

REF: SANTO DOMINGO SUMMARY CABLE OF MAY 21

1. FOL PROVIDES MORE DETAILS ON IDB 16TH ANNUAL MEETING.
2. REPLENISHMENT. US OPENED DISCUSSION IN COMMITTEE OF GOVERNORS ON SATURDAY DESCRIBING PROPOSAL ON WHICH WE CONSULTING WITH CONGRESS. BASIS OF US PROPOSAL IS INCREASED CONTRIBUTION TO CAPITAL WHICH WILL BENEFIT SUCH COUNTRIES AS BRAZIL, ARGENTINA AND MEXICO BUT ONLY ON CONDITION THESE COUNTRIES CONTRIBUTE CONVERTIBLE CURRENCIES TO FSO FOR USE IN POORER COUNTRIES. WITH BALL IN THEIR COURT THESE COUNTRIES DIFFUSED ISSUE WITH
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ALL MEMBERS AGREEING REPLENISHMENT URGENT AND FUNDAMENTAL FOR FUTURE OF BANK.

3. PROPOSAL US DISCUSSED WOULD ENVISION TOTAL REPLENISHMENT OF

OVER DOLS 4 BILLION OVER THREE YEARS (1976-79, INCLUDING US PARTICIPATION OF 1.8 BILLION (1.2 BILLION CAPITAL SHARES AND 600 MILLION FSO). WORKING GROUP SET UP TO STUDY REPLENISHMENT OF BANK'S CAPITAL AND RESOURCES OF THE FUND FOR SPECIAL OPERATIONS. WORKING GROUP WILL CONSIST OF ARGENTINA, BRAZIL, CANADA, COLOMBIA, MEXICO, NICARAGUA, US AND VENEZUELA, AND ANY OTHERS THAT INDICATE BY JUNE 1 THEIR DESIRE TO PARTICIPATE. ARGENTINA AND VENEZUELA HAD EXPRESSED RELUCTANCE TO BE ON WORKING GROUP BUT OTHER LATINS SECURED THEIR AGREEMENT. GROUP IS INSTRUCTED TO PRESENT FINAL RECOMMENDATIONS TO A SPECIAL MEETING OF BOARD OF GOVERNORS AT TIME OF THE IMF/IBRD ANNUAL MEETINGS IN EARLY SEPTEMBER. THE FIRST MEETING WILL BE IN PARIS ABOUT JUNE 12 AT TIME OF DEVELOPMENT COMMITTEE MEETING.

4. ALL COUNTRIES AGREED ON THE URGENCY OF UNDERTAKING REPLENISHMENT TALKS IN VIEW OF THE PROJECTED EXHAUSTION OF IDB ORDINARY CAPITAL COMMITMENT AUTHORITY BEFORE END OF CY1975 AND OF FSO'S SOMETIME IN 1976. WE EXPLAINED THAT OUR PROPOSAL IS BASED ON PRELIMINARY DISCUSSIONS WITH CONGRESS AND THAT WE SHALL CONTINUE CONSULTATIONS WITH CONGRESS IN ORDER THAT US POSITION WITHIN WORKING GROUP NEGOTIATIONS REFLECT AS ACCURATELY AS POSSIBLE REALISTIC EXPECTATIONS FOR APPROVAL OF US PARTICIPATION.

5. FSO CATEGORIES. ALSO TO BE SUBMITTED TO SPECIAL MEETING IN SEPT WILL BE A REPORT BY BOARD OF EXEC DIRECTORS ON CRITERIA TO BE USED FOR DIFFERENTIATING AMONG BORROWER COUNTRIES IN THE USE OF FSO RESOURCES. THE RESOLUTION ORIGINATED WITH A PROPOSAL BY COSTA RICA TO ELIMINATE DISTINCTION BETWEEN CATS C AND D IN THE CURRENT CLASSIFICATION SYSTEM. COSTA RICA MAINTAINED THAT IN SETTING UP SEPARATE CATEGORY FOR COUNTRIES OF LIMITED MARKET (CAT C, INCLUDING COSTA RICA) MANAGEMENT EXCEEDED ITS AUTHORITY UNDER EARLIER RESOLUTIONS TO GIVE SPECIAL ATTENTION TO LEAST DEVELOPED COUNTRIES. COSTA RICA WISHED TO BECOME ELIGIBLE FOR TWO-STEP FSO FINANCING, WHICH CURRENTLY APPLIES ONLY TO CAT D, IN ORDER TO OBTAIN MORE SOFT TERM FSO LOANS. THE US OPPOSED A SIMPLE COMBINING OF CATEGORIES C AND D AND SUGGESTED THAT ACCESS TO CONCESSIONAL LENDING SHOULD VARY IN ACCORDANCE WITH LIMITED OFFICIAL USE
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CHANGING ECONOMIC CONDITIONS OF INDIVIDUAL COUNTRIES. RESOLUTION DIRECTS BOARD OF EXEC DIRECTORS, TO STUDY CRITERIA FOR ALLOCATION OF FSO INCLUDING APPROPRIATENESS OF PRESENT CLASSIFICATION SYSTEM. PROPOSED SYSTEM SHOULD GIVE CONSIDERATION TO SUCH ADDITIONAL FACTORS AS AVAILABILITY OF NATURAL RESOURCES, BALANCE OF PAYMENTS POSITION AND PROSPECTS, AND REASONABLY BALANCED TREATMENT OF LESS DEVELOPED COUNTRIES PARTICIPATING IN ECONOMIC INTEGRATION SCHEMES. THE COSTA RICAN INITIATIVE HAS THUS OPENED UP DISCUSSION OF CRITERIA FOR ALLOCATING FSO TO TAKE PLACE ON SAME SCHEDULE AS REPLENISHMENT NEGOTIATIONS. RESULTS SHOULD BE TO HELP RESOLVE DIFFICULT FSO ALLOCATION PROBLEMS ALONE LINES US FAVORS.

6. CARIBBEAN DEVELOPMENT BANK. RESOLUTION PASSED BY GOVERNORS RECOMMENDS GOVERNMENT AMEND CHARTER SO THAT IDB CAN LEND TO CDB FOR PURPOSE OF RE-LENDING TO CDB MEMBERS, WHETHER OR NOT THEY ARE ALSO IDB MEMBERS. SIMILAR RESOLUTION PASSED AT 1974 IDB ANNUAL MEETING, BUT IN SUBSEQUENT MAIL POLL, COUNTRIES HOLDING APPROX 30 PERCENT OF VOTE ABSTAINED AND REQUESTED THAT ITEM BE RE-INTRODUCED ON 1975 AGENDA. NON-SUPPORT PRIOR TO THIS MEETING HAD BEEN LARGELY BASED ON GUATEMALA'S REQUEST TO EXPLAIN ITS POSITION (I.E., FUNDS SHOULD NOT BE PERMITTED TO GO TO AREAS UNDER TERRITORIAL DISPUTE SUCH AS BELIZE BUT ONCE GUATEMALA HAD ITS SAY BRAZIL AND ECUADOR (PLUS CHILE, PRIVATELY) ANNOUNCED THEY NOW WOULD SUPPORT ORIGINAL PROPOSAL. WITH ADDITION OF THREE COUNTRIES MENTIONED ABOVE AMENDMENT WILL PASS. STATED OPPOSITION, IN ADDITION TO GUATEMALA, CAME FROM ARGENTINA (BECAUSE OF FALKLAND ISLANDS DISPUTE), BOLIVIA, EL SALVADOR AND NICARAGUA.

7. EXEC DIRECTOR SALARIES. COMMITTEE COMPOSED OF BRAZIL AND COLOMBIA PROPOSED INCREASE IN ED SALARIES BY DOLS 5,000 TO 42,000 NET OF TAXES AND ALTERNATE ED SALARIES 4,000 TO 35,000 NET WITH INCREASE TO BE IN FORM NON-PENSIONABLE ALLOWANCE EFF JUNE 1. COLOMBIA OPPOSED PRINCIPLES OF EITHER PARITY WITH IBRD OR FULL COST OF LIVING INCREASE BUT ARGUED PROPOSED INCREASE JUSTIFIED BY CHANGED CONDITIONS IN WASHINGTON. US OPPOSED PROPOSAL AND SUGGESTED COMPROMISE OF SAME INCREASE IN THREE YEARLY INCREMENTS POINTING OUT STRONG CONGRESSIONAL AND PUBLIC OPPOSITION TO SUCH HIGH SALARIES, WELL ABOVE THAT PAID ANY FINANCE MINISTER IN HEMISPHERE. SOME LATIN EDS LOBBIED EXTREMELY HARD FOR INCREASES, FOR EXAMPLE CHILE DEL SAID BRAZIL ED AT ONE POINT LIMITED OFFICIAL USE
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THREATENED TO OPPOSE LOANS TO CHILE IF CHELE DID NOT SUPPORT IMMEDIATE INCREASE. ENGLISH SPEAKING CARIBBEANS WERE PREPARED TO SUPPORT US COMPROMISE BUT FINALLY GAVE IN TO LATIN PRESSURES. BARBADOS SAID IT STRONGLY OPPOSED ANY ADDITIONAL INCREASE OVER NEXT THREE YEARS. LATIN DEL HEADS TOLS US THAT ED SALARY LEVEL TOO HIGH BUT THEY COULD NOT BE SEEN TO OPPOSE IMMEDIATE INCREASE BECAUSE THEY DEPEND ON THEIR EDS. IMMEDIATE INCREASE PASSED BY 50.93 PERCENT, WITH US, CANADA AND CHILE OPPOSING. GUATEMALA DID NOT VOTE.

8. EARMARKING. IN HIS SPEECH OPENING MEETING, IDB RES ORTIZ VMENA EXPRESSED PROFOUND CONCERN WITH FACT US HAS NOT YET COMPLETELY FULFILLED ITS COMMITMENTS UNDER REPLENISHMENT INITIATED IN 1970. HE ALSO EXPRESSED BANK'S STRONG OBJECTION TO CONGRESSIONAL EARMARKING OF DOLS 50 MILLION OF FY-75225 MILLION APPROPRIATION FOR FSO. ORTIZ MENA POINTED OUT BANK'S SUPPORT FOR THE INSTITUTIONS SINGLED OUT BY THE EARMARKING I. E. COOPERATIVES, CREDIT UNIONS, AND SAVING AND LOAN INSTITUTIONS. HE COMMENTED, HOWEVER, THAT MAKING CONTRIBUTIONS SUBJECT TO CONDITIONS IS CONTRARY TO LETTER AND SPIRIT OF IDB CHARTER AND ACCEPTANCE OF

TIED MONEY WOULD "UNDERMINE THE FREEDOM OF THE BANK'S MANAGEMENT TO ALLOCATE RESOURCES ACCORDING TO TECHNICAL CRITERIA" AND DO IRREPARABLE HARM TO INTERNATIONAL COOPERATION AND THE BANK'S MULTILATERAL CHARACTER. THE GOVERNOR FOR COLOMBIA, CARLOS SANZ DE SANTAMARIA, ALSO COMMENTED THAT US EARMARKING IS INCONSISTENT WITH IDB CHARACTER. THE SPOKESMAN FOR COLOMBIA IN A WORKING GROUP ON REPLENISHMENT REITERATED SUCH CONCERNS. IN RESPONSE US EXPLAINED THAT EXECUTIVE BRANCH OPPOSED EARMARKING USD HAS JUST THIS WEEK FORMALLY REQUESTED ITS DELETION FROM THE LEGISLATION.

9. EXPORT FINANCING. ARGENTINA AND EL SALVADOR PRESSED HARD FOR A RESOLUTION TO EXPAND GREATLY THE IDB'S EXPORT FINANCING PROGRAM TO AS MUCH AS DOLS 1.0 BILLION AND TO INCLUDE ALL GOODS EVEN CONSUMER DURABLE AND EXPORTS TO COUNTRIES OUTSIDE LATIN AMERICA. CURRENTLY THE IDB OPERATED 60 MILLION REVOLVING FUND FOR FINANCING AT 7 PERCENT INTEREST EXPORTS OF CAPITAL GOODS WITHIN LATAM. ALSO 10 PERCENT OF THE RECENTLY CREATED DOLS 500 MILLION VENEZUELAN TRUST FUND, WILL BE AVAILABLE FOR EXLORT FINANCING VIRTUALLY WITHOUT RESTRICTION. BRAZIL, CHILE, AND MEXICO INITIALLY SUPPORTED ARGENTINE PROPOSAL BUT WERE THEN COOPERATIVE IN WORKING OUT COMPROMISE ONCE US HAD INDICATED IT LIMITED OFFICIAL USE
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WOULD MAKE SUBSTANTIAL CHANGES IN ITS POSITION. US AGREED WITH IMPORTANCE TO LATIN AMERICA OF EXPANSION NON-TRADITIONAL EXPORT, AND NOTED WIDESPREAD SUPPORT AMONG THE OTHER MEMBERS FOR GREATER IDB INVOLVEMENT IN FINANCING EXPORTS. AS A REALISTIC AND CONSTRUCTIVE ALTERNATIVE TO THE ARGENTINES' AMBITIOUS PROPOSAL, THE US PROPOSED EXPANSION OF THE LIST OF GOODS ELIGIBLE FOR IDB FINANCING TO INCLUDE, IN ADDITION TO CAPITAL GOODS, OTHER LA EXPORTS WHICH INCREASE PRODUCTION IN IMPORTING COUNTRIES SUCH AS FERTILIZERS, PESTICIDES, AND SEEDS. US POSITION BASED ON LEGAL OPINIONS OF IDB GENERAL COUNSEL AND THREE INDEPENDENT LEGAL CONSULTANTS THAT ARGENTINE PROPOSAL TO INCLUDE CONSUMER DURABLES AND EXPORTS OUTSIDE REGION WOULD REQUIRE SIGNIFICANT CHANGES IN BANK'S CHARTER. US ALSO NOTED EXPORT FINANCING IS ESSENTIALLY RESPONSIBILITY OF COMMERCIAL BANKING SECTOR AND LARGE EXPANSION OF IDB PROGRAM WOULD BE INCONSISTENT WITH IDB'S ROLE AS A DEVELOPMENT FINANCE INSTITUTION AND WOULD CONSTITUTE UNWISE USE OF BNAK'S SCARCE RESOURCES. US AND OTHERS NOTED LA CENTRAL BANKS HAD JUST REACHED AGREEMENT TO EXPLORE DOLS 300 MILLION FUND FOR EXPORT FINANCING AND THAT WORK SPONSORED BY IDB AND LAFTA TOWARD SALE OF EXPORT PAPER IN NEW YORK MARKET IS COMING TO A SUCCESSFUL CONCLUSION. US CAUTIONED THAT DETAILS FOR EXPANDED PROGRAM SUCH AS LENGTH OF LOANS MUST BE IN KEEPING WITH CURRENT INTERNATIONAL PRACTICES. RESOLUTION ADOPTED PROVIDES THAT IDB'S EXPORT FINANCING PROGRAM SHOULD BE EXPANDED TO INCLUDE MANUFACTURES, SEMIMANUFACTURES AND OTHER NON-TRADITIONAL EXPORTS THAT CONTRIBUTE TO PRODUCTION INCREASES IN EXPORTING AS WELL AS IMPORTING COUNTRIES. BOARD OF EXECUTIVE DIRECTORS INSTRUCTED TO REPORT TO BOARD OF GOVERNORS BY AUG 31, 75 ON MEASURE

TO EXPAND LIST OF ELIGIBLE GOODS AND BY OCT 31, 75 ON ITS
EXAMINATION OF OTHER ASPECTS OF ARGENTINE PROPOSAL.

10. NON-REGIONAL MEMBERSHIP. NO SUBSTANTIVE ACTION WAS NECESSARY
SINCE PROPOSAL FOR AMENDMENTS TO IDB CHARTER TO PERMIT ENTRY
OF NON-REGIONALS WAS SUBMITTED TO GOVERNORS FOR FORMAL ACTION IN
MID-MARCH. HOWEVER, MANAGEMENT SUGGESTED ROUTINE RESOLUTION
COMMENDING PRESIDENT AND COMMITTEE OF BOARD FOR SUCCESSFUL
CONCLUSION OF NEGOTIATIONS, RECORDING DESIRABILITY OF CONCLUDING
STEPS PROMPTLY TO PERMIT ENTRY OF NON-REGIONALS, AND URGING
OTHER DEVELOPED COUNTRIES TO JOIN DURING PERIOD PROVIDED IN NON-
REGIONAL AGREEMENT. IN PLENARY SESSION WITH NON-REGIONALS AND
PRESS PRESENT COLOMBIA RESERVED ON PROPOSED RESOLUTION
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VENEZUELA FINANCE MIN HURTADO STATED GOV COULD NOT ACCEPT
LANGUAGE. ARGENTINA AND COUPLE OF OTHER DELS JOINED NEGATIVE
BUT UNSPECIFIC CHORUS BEFORE USDEL MANAGED GET RESOLUTION REFERRED
BACK TO COMMITTEE OF GOVERNORS FOR REDRAFTING. RESULTING DRAFT
WAS POORLY WORDED AND IS BEING INTERPRETED BY COME NON-REGIONALS
AS SUGGESTION THAT THEY NOT BEGIN THEIR LEGISLATIVE PROCESSES
UNTIL CURRENT MEMBERS FORMALLY AMEND CHARTER TO PERMIT NON-
REGIONALS TO ENTER. DESPITE EFFORTS ON PART OF BANK MANAGEMENT
AND USDEL TO PACIFY NON-REGIONALS THIS PROCEDURAL NON-EVENT
MAY UPSET NON-REGIONAL SCHEDULE WITH DELAY ENTRY UNTIL 1977. FOR
MOST DELS SUCH AS COLOMBIA CONCERN WAS APPARENTLY ONLY WITH
WORDING BUT VENEZUELA AND ARGENTINA CONTINUE TO HARBOR SUBSTANTIAL
DOUBTS ABOUT NON-REGIONAL ENTRY.

1. MISCELLANEOUS AGENDA ITEMS. A) COST OVERRUNS - PARAGUAY,
URUGUAY, AND BOLIVIA PROPOSED THAT PREFERENTIAL TREATMENT GIVEN TO
COUNTRIES OF LIMITED MARKET AND TO LEAST DEVELOPED (IE FSO
CAT C AND D COUNTRIES) BE EXTENDED TO INCLUDE GRANTING SUPPLE-
MENTARY FINANCING WHERE THE COST OF A PROJECT HAS INCREASED
THROUGH NO FAULT OF BORROWER, AND THAT SUCH FINANCING BE ON
SAME TERMS AS ORIGINAL OPERATION AND FOR SAME SHARE OF FINANCING
OF PROJECT'S COST. THIS PROPOSAL WAS REFERRED TO BOARD OF EXEC
DIRECTORS WITH LARGER COUNTRIES INDICATING THEY TOO HAVE
COST OVERRUNS AND US INDICATING GENERAL OPPOSITION TO IDB
FINANCING OF COST OVERRUNS ALTHOUGH WE PREPARED TO CONSIDER ON
CASE-BY-CASE BASIS. B) INTAL - ARGENTINA PROPOSED THAT BOARD OF
EXECUTIVE DIRECTORS BE INSTRUCTED TO ENSURE FINANCING OF INTAL,
PROPOSE MEANS FOR GREATER INTAL AUTONOMY WITHIN IDB, AND UTILIZE
INTAL AS PERMANENT EXECUTING AGENT FOR TA PROJECTS ON LATING
AMERICAN INTEGRATION. BOTH US AND CANADA OPPOSED UNTIMELY DEC-
ISION AND ITEM REFERRED TO BOARD OF DIRECTORS. C) CARIBBEAN
EXECUTIVE DIRECTORSHIP - TRINIDAD AND TOBAGO PROPOSED ADDITIONAL
EXECUTIVE DIRECTOR TO REPRESENT ENGLISH SPEAKING CARIBBEAN
MEMBERS BUT WITHDREW ITS RESOLUTION ON CONDITION THAT IT BE ON
AGENDA AT EARLY MEETING OF COMMITTEE OF BOARD OF GOVERNORS. D)
BILATERAL MEETINGS - IN BILATERALS HELD DURING COURSE OF MEETING,

PROBLEM OF ECUADORIAN FSO ACCESS WAS RESOLVED, AT LEAST FOR
NEXT SEVERAL MONTHS, AND DISCUSSIONS WITH VENEZUELA, MEXICO,
AND BRAZIL ON VARIOUS IDB ISSUES MADE LIMITED PROGRESS. MEMCONS
BEING FORWARDED TO EMBASSIES, ALONG WITH MEMCON ON MEETING WITH
CANADIAN MIN OF INDUSTRY, TRADE AND COMMERCE. SEPARATE AIRGRAM
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WILL BE SENT SUMMARIZING SPEECHES.
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